

CHAPTER 6 – AUDITOR GENERAL AUDIT FINDINGS

INTRODUCTION

COMPONENT A: AUDITOR-GENERAL OPINION OF FINANCIAL STATEMENTS Year -1:2015/16

6.1 AUDITOR GENERAL REPORTS YEAR -1 (2015/16)

Auditor-General Report on Financial Performance: year – 1: 2015/16	
Auditor Report Status:	Auditor-General was engaged to audit the 2015-16 financial statements of Ngwathe Local Municipality, which comprise the statement of financial position as at 30 June 2016, the statements of financial performance, changes in net assets and cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information. The municipality received unqualified audit opinion in 2015-16 financial year.
Auditor-General's responsibility	Was to express an opinion on the financial statements audited in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. AG's opinion on the audited financial statements was that "the financial statements present fairly, in all material respects, the financial position of Ngwathe Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Non-Compliance Issues	Remedial Action Taken
The report of the Auditor-General on the financial statements and other legal and regulatory requirements of Ngwathe local municipality for the year ended 30 June 2016 indicates that after auditing the 2015/16 financial statements and other legal and regulatory requirement, the AG's had other matters of concern detailed below:	The Municipality correct some of the prior period errors on the preparation of 2016-17 AFS.
Non-Compliance Issues	Remedial Action Taken
<p>The report of the Auditor-General on the financial statements and other legal and regulatory requirements of Ngwathe local municipality for the year ended 30 June 2016 indicates that after auditing the 2015/16 financial statements and other legal and regulatory requirement, the AG's had other matters of concern detailed below:</p> <p>1. EMPHASIS OF MATTERS</p> <p>As per the attached report, other matters of concern which forms part of the opinion were mainly due to shortcomings from the municipality's side in the following areas;</p>	

<u>Restatement of corresponding figures:</u>	
<p>As disclosed in note 43 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2015-16 in the financial statements of the municipality at, and for the year ended, 30 June 2015.</p>	<p>Corrected</p>
<p><u>Material losses:</u></p> <p>As disclosed in note 50 to the financial statements, material electricity losses of R126 752 795 (2015: 64 106 909) were incurred by the municipality mainly due to electricity theft.</p>	<p>None</p>
<p><u>Material impairments:</u></p> <p>As disclosed in notes 10 and 11 to the financial statements, management provided for the impairment of consumer and other receivables of R566 444 475 (2015: 473 132 002).</p>	<p>None - In progress of being corrected in 2017-18 FY</p>
<p><u>Irregular expenditure:</u></p> <p>As disclosed in note 49 to the financial statements, the municipality incurred irregular expenditure of R60 200 348 (2015: 9 346 751) in 2015-16 due to non-compliance with supply chain management (SCM) requirements.</p>	<p>In progress of being corrected (Section 32 Committee established to investigate the expenditure) in 2017-18 FY</p>
<p><u>Fruitless and wasteful expenditure:</u></p> <p>As disclosed in note 48 to the financial statements, the municipality incurred fruitless and wasteful expenditure of R74 252 491 (2015: 51 248 897) in 2015-16 due to interest and penalty charges on the late payment of suppliers.</p>	<p>The municipality is in process of ensuring that cash flow is effectively managed</p>
<p><u>Unauthorized expenditure:</u></p> <p>As disclosed in note 47 to the financial statements, the municipality incurred unauthorized expenditure of R177 095 143 (2015: 266 727 757) during 2015-16 due to expenditure that exceeded the limits provided for in the main divisions of the approved budget.</p>	<p>None - To be fully addressed in 2017/18 FY, henceforth</p>
<p><u>Going concern:</u></p> <p>Note 45 to the financial statements indicates that the municipality incurred a net loss of R141 836 468 during the year ended 30 June 2016 and, as of that date, the municipality's current liabilities exceeded its current assets by R714 672 259. In addition, the municipality owed Eskom R544 008 986 (2015: 386 211 700) and</p>	<p>None - To be fully addressed in 2017/18 FY, henceforth</p>

<p>the Department of Water Affairs R63 899 036 (2015: R50 086 403) as at 30 June 2016, which was long overdue. These conditions, along with</p>	
<p>other matters set forth in note 45, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern and to meet its service delivery objectives.</p>	
<p>2. ADDITIONAL MATTER</p>	
<p>The AG's opinion on the financial statement is not modified in respect of the following matter.</p>	
<p><u>Unaudited disclosure notes:</u></p>	
<p>In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.</p>	<p>None</p>
<p><u>Procurement and contract management:</u></p>	
<p>Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).</p>	<p>In progress of addressing the findings in 2017/18 FY</p>
<p><u>Expenditure management:</u></p>	
<p>Reasonable steps were not taken to prevent unauthorized expenditure, as required by section 62(1)(d) of the MFMA.</p>	<p>In progress of addressing the findings in 2017/18 FY</p>
<p>Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.</p>	
<p>Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.</p>	
<p>Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.</p>	
<p><u>Consequence management:</u></p>	
<p>Unauthorized expenditure by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.</p>	<p>In progress of addressing the findings in 2017/18 FY</p>
<p>Irregular expenditure by the municipality was not investigated to determine whether any person was</p>	

<p>liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation 75(1).</p>	
<p>Fruitless and wasteful expenditure by the municipality was not investigated to determine whether any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA and municipal budget and reporting regulation 75(1).</p> <p><u>Internal control:</u> I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.</p> <p><u>Leadership:</u> Leadership did not always take prompt and adequate action to address weaknesses in performance management, which resulted in non-compliance with applicable legislation. Management failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause.</p> <p><u>Financial and performance management:</u> Management did not implement proper record keeping and prepare regular, accurate and complete performance reports that were supported and evidenced by reliable information. This was due to the lack of competent from staff in performance information division. The municipality did not prioritise the review and monitoring of compliance with legislation, which resulted in repeat findings being reported. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing. Audit findings communicated to the municipality during the audit were corrected by management, which resulted in material adjustments to the financial statements. Due to the lack of capacity, the finance division relied heavily on the use of consultants, which is not sustainable in the long term.</p> <p><u>Governance:</u> The municipality did not promptly initiate steps based on the risk assessment performed to address risks relating to the performance management system.</p>	<p>In progress of addressing the findings in 2017/18 FY</p> <p>In progress of addressing the findings in 2017/18 FY</p> <p>In progress of addressing the findings in 2017/18 FY</p> <p>In progress of addressing the findings in 2017/18 FY</p>

Auditor-General Report on Service Delivery Performance: Year 1: 2015/16

Audit Report Status:	Report On Predetermined Objectives 1. The following is a summary of our conclusions on the usefulness and reliability of the reported performance information: <table><tr><td>Selected development priority</td><td>Usefulness</td><td>Reliability</td></tr><tr><td><i>KPA 1: Basic Service Delivery and Infrastructure Development</i></td><td><i>Adverse</i></td><td><i>Disclaimer</i></td></tr></table>			Selected development priority	Usefulness	Reliability	<i>KPA 1: Basic Service Delivery and Infrastructure Development</i>	<i>Adverse</i>	<i>Disclaimer</i>
Selected development priority	Usefulness	Reliability							
<i>KPA 1: Basic Service Delivery and Infrastructure Development</i>	<i>Adverse</i>	<i>Disclaimer</i>							
Non-Compliance Issues	Remedial Action Taken								
Predetermined objectives <u>KPA 1: Basic Service Delivery And Infrastructure Development</u> <ul style="list-style-type: none">- Basis for adverse conclusion on usefulness- Performance targets should be specific in clearly identifying the nature and required level of performance as required by the FMPPI. A total of 66% of the targets were not specific.- Performance targets should be measurable as required by the FMPPI. We could not measure the required performance for 83% of the targets.- Performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use, as required by the FMPPI. A total of 76% of the indicators were not well defined.	In progress of addressing the findings in 2017/18 FY								

- The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 83% of the indicators were not verifiable.
- This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes and technical indicator descriptions.

Adverse conclusion on usefulness

- In AG's opinion, because of the significance of the matters described in the basis for adverse conclusion paragraphs, the reported performance information of KPA 1: Basic Service Delivery and Infrastructure Development presented in the annual performance report is not useful in accordance with the identified performance management and reporting framework.

Basis for disclaimer of conclusion on reliability

- The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. AG was unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the

reliability of the reported performance information.

This was due to limitations placed on the scope of our work due to the absence of proper systems and processes and that the auditee could not provide sufficient appropriate evidence in support of the reported performance information. The auditee's records also did not permit the application of alternative audit procedures.

Disclaimer of conclusion on reliability

- Because of the significance of the matters described in the basis for disclaimer of conclusion paragraph, AG has not been able to obtain sufficient appropriate audit evidence to provide a basis for conclusion. Accordingly, we do not express a conclusion on the reliability of KPA 1: Basic Service Delivery and Infrastructure Development.

COMPONENT B: AUDITOR-GENERAL OPINION YEAR 0 (CURRENT YEAR)

6.2 AUDITOR GENERAL REPORT YEAR – 2016/17

Report of the auditor-general to the Free State Provincial Legislature and the council on the Ngwathe Local Municipality

Report on the audit of the financial statements

1. I have audited the financial statements of the Ngwathe Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of this report, the financial statements present fairly, in all material respects, the financial position of the Ngwathe Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence that the municipality had properly accounted for property, plant and equipment in accordance with GRAP 17, Property, plant and equipment. Certain infrastructure assets and properties could not be traced to the municipality's fixed asset register, improvements were accounted for on vacant land and significant components of assets were not depreciated separately. In addition, I was unable to obtain supporting documentation for fixed asset additions. I was unable to confirm property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property, plant and equipment stated as R792 186 856 in note 11 to the financial statements.

Investment property

4. I was unable to obtain sufficient appropriate audit evidence for investment property as the municipality did not maintain adequate supporting documentation relating to the ownership and locations of these properties. I was unable to confirm investment property by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to investment property stated as R116 519 727 in note 10 to the financial statements.

Payables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for an unexplained difference between the amount disclosed in the financial statements for trade payables and the supporting schedules. I was unable to confirm this difference by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to trade payables stated as R966 453 176 in note 16 to the financial statements.

Irregular expenditure

6. ~~The municipality did not disclose all instances of irregular expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. The municipality made payments in contraventions of the supply chain management (SCM) requirements, which were not disclosed. I was unable to determine the full extent of the understatement of irregular expenditure in note 52 to the financial statements, as it was impracticable to do so.~~

Service charges

7. The municipality did not account for revenue from service charges in accordance with GRAP 9, Revenue from exchange transactions. The municipality did not have adequate systems to account for flat rates where electricity meters were broken. I was unable to confirm the sale of electricity by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the sale of electricity stated as

R146 091 861 in note 22 to the financial statements.

Depreciation

8. I was unable to obtain sufficient appropriate audit evidence that depreciation for the year under review has been properly accounted for, due to the unavailability of information in the municipality's fixed asset register. I was unable to confirm depreciation by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to depreciation stated as R66 234 822 in note 32 to the financial statements.

Government grants and subsidies

9. The municipality did not account for government grants received in-kind, as required by GRAP 23, Revenue from non-exchange transactions. Consequently, government grants and subsidies stated as R236 594 300 in note 29 to the financial statements was understated by R23 993 000. Additionally, there was a resultant impact on property, plant and equipment, unspent conditional grants, deficit for the period and the accumulated deficit.

Bad debts written off

10. I was unable to obtain sufficient appropriate audit evidence for a difference of R32 374 866 between the council's approval and the amount written-off. I was unable to confirm bad debt written off by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to bad debts written off stated as R173 235 102 in the statement of financial performance.

Context for the opinion

11. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this report.

12. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

13. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty relating to going concern

14. I draw attention to the matter below. My opinion is not modified in respect of this matter.

15. ~~Note 48 to the financial statements indicates that the municipality incurred a net loss of R191 652 221 during the year ended 30 June 2017 and, as of that date, the municipality's current liabilities exceeded its current assets by R927 740 342. In addition, included in trade payables in note 16 are amounts owed to Eskom of R758 940 364 (2016:~~

R455 949 473) and the water board of R86 587 268 (2016: R60 748 102) which are long overdue. These conditions, along with other matters as set forth in note 48, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern and to meet its service delivery objectives.

Emphasis of matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

17. As disclosed in notes 45 and 46 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Unauthorised expenditure

18. As disclosed in note 50 to the financial statements, unauthorised expenditure of R79 673 244 (2016: R177 095 143) was incurred due to overspending of the municipality's budget.

Irregular expenditure

19. As disclosed in note 52 to the financial statements, irregular expenditure of R102 412 393 (2016: R60 200 348) was incurred due to non-compliance with SCM requirements.

Fruitless and wasteful expenditure

20. As disclosed in note 51 to the financial statements, fruitless and wasteful expenditure of R103 497 839 (2016: R74 252 491) was incurred due to interest and penalty charges on late payments.

Material losses

21. As disclosed in note 53 to the financial statements, material electricity losses to the amount of R86 568 467 (2016: R126 752 795) was incurred which represents 62% (2016: 52%) of total electricity purchased.

22. As disclosed in note 53 to the financial statements, material water losses of R59 721 748 was incurred, which represents 54% of total water purchased.

Material impairments

23. As disclosed in note 6 to the financial statements, receivables from exchange and receivables from non-exchange transactions were impaired by R504 826 837 (2016: R566 444 474).

Other matter

24. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

25. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

26. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

27. In preparing the financial statements, the accounting officer is responsible for assessing the Ngwathe Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

28. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

29. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

30. I was unable to audit and report on the usefulness and reliability of the performance information as the annual performance report of the municipality was not prepared as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (Municipal Systems Act) and section 121(3)(c) of the MFMA.

Report on the audit of compliance with legislation

Introduction and scope

31. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

32. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements and annual reports

33. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and

supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

34. The annual financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

35. The annual performance report for the year under review did not include the performance of the municipality, a comparison with the previous financial year and measures taken to improve performance, as required by section 46(1)(a),(b) & (c) of the Municipal Systems Act.

36. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.

Expenditure management

37. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

38. Effective steps were not taken to prevent irregular expenditure of R102 412 393 as disclosed in note 52 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with SCM requirements.

39. Effective steps were not taken to prevent fruitless and wasteful expenditure of R103 497 839 as disclosed in note 51 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest on late payments.

Budget management

40. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The majority of the disclosed unauthorised expenditure was caused by the overspending of the approved budgets within the main divisions of the vote.

Asset management

41. An effective system of internal control for assets was not in place, as required by section 63(2)(c) of the MFMA.

Procurement and contract management

42. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).

43. Some of the quotations were accepted from bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the previous year.

44. Some of the quotations were accepted from bidders whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.

45. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the previous year.

46. Some quotations were awarded to bidders based on preference points that were not allocated and/or calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000) and its regulations.

47. Sufficient appropriate audit evidence could not be obtained that construction contracts were awarded to contractors that were registered with the Construction Industry Development Board (CIDB) and qualified for the contract in accordance with section 18(1) of the CIDB Act of South Africa, 2000 (Act No. 38 of 2000) and CIDB regulations 17 and 25(7A).

48. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.

49. The performance of some of the contractors and providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

50. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.

Human resource management

51. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act.

Strategic planning

52. The service delivery and budget implementation plan for the year under review was not approved by the mayor, as required by section 53(1)(c)(ii) of the MFMA.

53. Key performance indicators were not set for the provision of basic sanitation services, as required by section 43(2) of the Municipal Systems Act and municipal planning and performance management regulation 10(a).

54. A performance management system was not timeously adopted, as required by section 38(a) of the Municipal Systems Act and municipal planning and performance management regulation 8.

Consequences management

55. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(a) of the MFMA.

56. Irregular expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

57. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Revenue management

58. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Other information

59. The Ngwathe Local Municipality's accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements and the auditor's report.

60. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

61. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

62. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

63. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

64. Management did not address the shortcomings within the internal control environment relating to financial reporting. Reliance was placed on consultants to perform year-end accounting work and the compilation of the financial statements; however, not all these shortcomings were addressed due to the late appointment of the consultants.

65. Management did not prioritise reporting on performance information, as the performance report was compiled late and not submitted for auditing within the agreed-upon timelines. Management also did not compile an action plan to address the matters reported in the previous years relating to the report on performance information.

66. Management also did not prioritise the review and monitoring of compliance with legislation. The position of the SCM manager was vacant for several years with an appointment only made subsequent to year-end, which resulted in repeat findings being raised. This was due to a lack of consequence management as officials were not held accountable for non-compliance.

67. Weaknesses in the processes and controls pertaining to asset management were not adequately addressed. The lack of regular monitoring and reconciliation of asset information resulted in the asset register not being reliable. These weaknesses gave rise to material misstatements in the annual financial statements.

Auditor-General
Bloemfontein

26 January 2018



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – auditor-general’s responsibility for the audit

- ~~1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected key performance areas and on the municipality’s compliance with respect to the selected subject matters.~~

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:

identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control

evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer

conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ngwathe Local Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern

evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence, and where applicable, related safeguards.

GLOSSARY

Accessibility indicators	Explore whether the intended beneficiaries are able to access services or outputs.
Accountability documents	Documents used by executive authorities to give <i>"full and regular"</i> reports on the matters under their control to Parliament and provincial legislatures as prescribed by the Constitution. This includes plans, budgets, in-year and Annual Reports.
Activities	The processes or actions that use a range of inputs to produce the desired outputs and ultimately outcomes. In essence, activities describe <i>"what we do"</i> .
Adequacy indicators	The quantity of input or output relative to the need or demand.
Annual Report	A report to be prepared and submitted annually based on the regulations set out in Section 121 of the Municipal Finance Management Act. Such a report must include annual financial statements as submitted to and approved by the Auditor-General.
Approved Budget	The annual financial statements of a municipality as audited by the Auditor General and approved by council or a provincial or national executive.
Baseline	Current level of performance that a municipality aims to improve when setting performance targets. The baseline relates to the level of performance recorded in a year prior to the planning period.
Basic municipal service	A municipal service that is necessary to ensure an acceptable and reasonable quality of life to citizens within that particular area. If not provided it may endanger the public health and safety or the environment.
Budget year	The financial year for which an annual budget is to be approved – means a year ending on 30 June.
Cost indicators	The overall cost or expenditure of producing a specified quantity of outputs.
Distribution indicators	The distribution of capacity to deliver services.
Financial Statements	Includes at least a statement of financial position, statement of financial performance, cash-flow statement, notes to these statements and any other statements that may be prescribed.
General performance indicators	Key After consultation with MECs for local government, the Minister may prescribe general key performance indicators that are appropriate and applicable to local government generally.
Impact	The results of achieving specific outcomes, such as reducing poverty and creating jobs.
Inputs	All the resources that contribute to the production and delivery of outputs. Inputs are "what we use to do the work". They include finances, personnel, equipment and buildings.
Integrated Development Plan (IDP)	Set out municipal goals and development plans.
National performance areas	Key <ul style="list-style-type: none"> • Service delivery & infrastructure • Economic development • Municipal transformation and institutional development • Financial viability and management • Good governance and community participation

Outcomes	The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs. Outcomes should relate clearly to an institution's strategic goals and objectives set out in its plans. Outcomes are "what we wish to achieve".
Outputs	The final products, or goods and services produced for delivery. Outputs may be defined as "what we produce or deliver". An output is a concrete achievement (i.e. a product such as a passport, an action such as a presentation or immunization, or a service such as processing an application) that contributes to the achievement of a Key Result Area.
Performance Indicator	Indicators should be specified to measure performance in relation to input, activities, outputs, outcomes and impacts. An indicator is a type of information used to gauge the extent to which an output has been achieved (policy developed, presentation delivered, service rendered)
Performance Information	Generic term for non-financial information about municipal services and activities. Can also be used interchangeably with performance measure.
Performance Standards:	The minimum acceptable level of performance or the level of performance that is generally accepted. Standards are informed by legislative requirements and service-level agreements. Performance standards are mutually agreed criteria to describe how well work must be done in terms of quantity and/or quality and timeliness, to clarify the outputs and related activities of a job by describing what the required result should be. In this EPMDS performance standards are divided into indicators and the time factor.
Performance Targets:	The level of performance that municipalities and its employees strive to achieve. Performance Targets relate to current baselines and express a specific level of performance that a municipality aims to achieve within a given time period.
Service Delivery Budget Implementation Plan	Detailed plan approved by the mayor for implementing the municipality's delivery of services; including projections of the revenue collected and operational and capital expenditure by vote for each month. Service delivery targets and performance indicators must also be included.
Vote:	<p>One of the main segments into which a budget of a municipality is divided for appropriation of money for the different departments or functional areas of the municipality. The Vote specifies the total amount that is appropriated for the purpose of a specific department or functional area.</p> <p>Section 1 of the MFMA defines a "vote" as:</p> <p><i>a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and</i></p> <p><i>b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned</i></p>